Industrial Growth & Investments

Mains: *GS III - Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment*

Why in the news?

Recently, the Ministry of Statistics and Program Implementation (MoSPI) released the monthly growth rate of the Index of Industrial Production (IIP), which has slowed to a nine-month low of 1.2% inspite of government initiatives on investment.

What is Index of Industrial Production (IIP)?

- It is a measure of the *rate of growth in the economy's various industry groups* over a given period.
- **Aim** – To measure the ***short term changes in industrial output***.
- **Published since** - 1950
- **Compiled by** - Central Statistical Organisation (CSO), Ministry of Statistics and Program Implementation (MoSPI)
- **Scope** – It *includes mining, manufacturing, electricity* as recommended by the United Nations Statistical Office (UNSO).
- But owing to constraints of data availability, the IIP compiled in India *has excluded construction, gas and water supply sectors*.
- **8 core industries covered** - Refinery Products, Electricity, Steel, Coal, Crude Oil, Natural Gas, Cement & Fertilisers.
- **Sectoral composition (weight-wise)**
  - Manufacturing – 478
  - Mining – 64
  - Electricity - 1
- **Measurement** – It is compiled as a *simple weighted arithmetic mean of production* relatives by using Laspeyre's formula.

*The **Laspeyres Price Index** is a consumer price index used to measure the change in the prices of a basket of goods and services relative to a specified base period weighting. It is also called the base year quantity weighted method.*

- The unit of reporting in respect of certain items like machinery, machine tools, ship building, etc. is in value terms.
- The monthly figure of production value is first deflated by the Wholesale Price Index

(WPI) of the corresponding categories, released by the Office of the Economic Adviser, Ministry of Industry.

- **Current base year** – 2011-12.

How investment is represented in capitalist economy?

Basis of GDP and its Linkage with Investment

• **GDP** - Gross domestic product is the monetary value of all finished goods and services made within a country during a specific period.
• **Determinants of GDP in capitalist economy -** It is determined mainly by *the factors such as of private consumption, investment, and net exports.*
• Government spending is minimal, and the primary drivers of economic activity are business investment, individual choices, and international trade.

Box 1

$$GDP \equiv \overbrace{\text{wages} + \text{profits}}^{\text{income method}} = \overbrace{\text{workers' consumption} + \text{investment}}^{\text{Expenditure method}}$$

$$\text{if,} \quad \text{workers' consumption} = \text{wages}$$

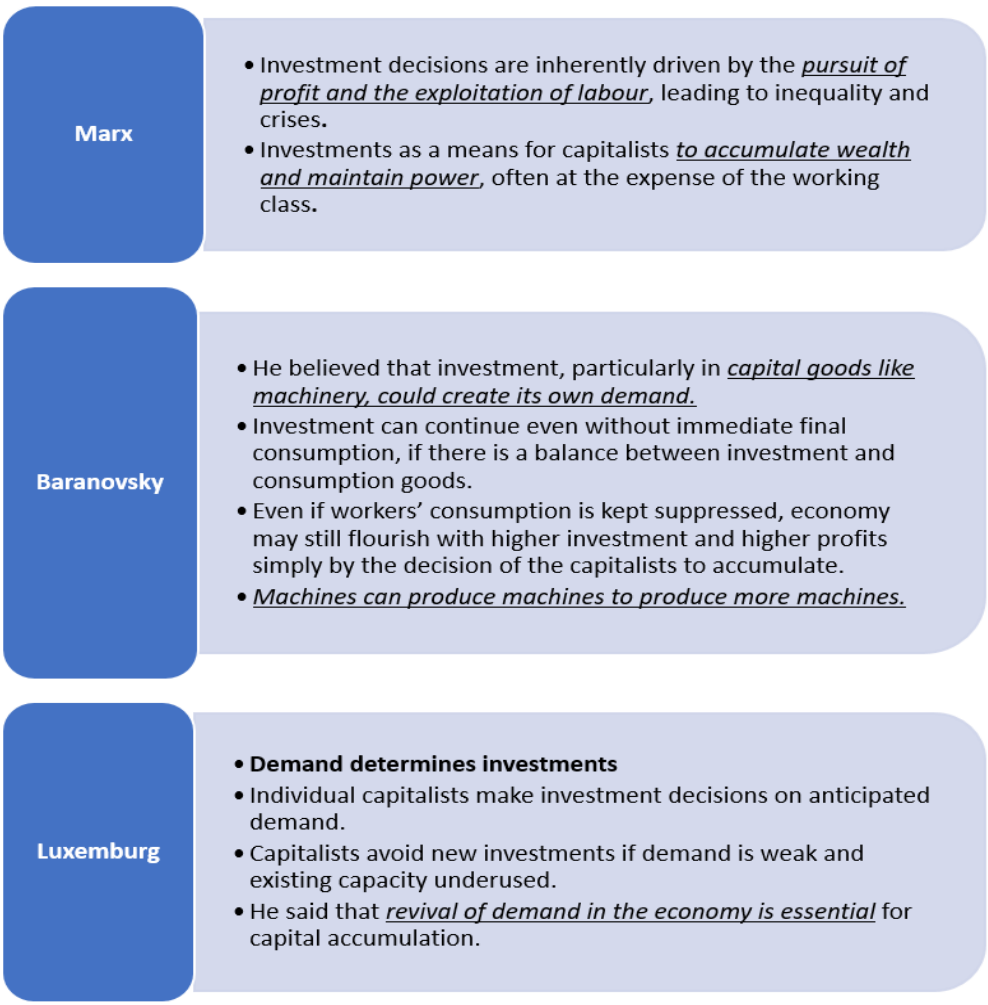
$$\therefore \quad \text{profits} = \text{investment}$$

• **Determinants of GDP in Mixed economy (India) –** It is determined by the *interplay of both private sector and public sector activities*.
• It includes consumption, investment, government spending, and net exports.
• Government policies and regulations also play a significant role.

Box 2

$$GDP \equiv \text{wages} + \text{profits} = \text{workers' consumption} + \text{investment} + \text{government expenditure} + \text{exports} - \text{imports}$$

- **Investment-** It is the ***acquisition of goods that are not consumed in the current period,*** but are used in the future to produce other goods and services.
- It can take many forms, including the purchase of physical capital, such as machinery, equipment, new hardware and software and buildings.
- **Economists view on investment**



What are the steps taken by India to boost investment?

- **Corporate tax cuts** - The corporate tax in India was significantly *reduced to 22% from 30%.*
- **Capex push** - Capital expenditure surged from Rs 2 lakh crore in 2014-15 to *Rs 11.21 lakh crore in 2025-26*.
- **Interest rate cut** - The RBI has already delivered two consecutive rate cuts, including a 50 *basis points cut* to 5.50 in June 2025.

> ***The repo rate (repurchase rate)*** *is the interest rate at which the central bank lends money to commercial banks when there is a shortage of funds. It is the rate at which banks borrow money from the central bank for short-term needs, usually against government securities.*

Why investment like CAPEX spending is not helping?

- **Capital expenditures (CapEx)** – They are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. -
- **Gestation lags** - Large scale projects usually have long gestational periods and thus investment benefits are seen immediately.

- Building up of better infrastructure takes more time than expected.
    - **For example**, *a port takes time to build and become operational.*
- **Labour intensity** - If most of the money is spent on heavy duty machines, *the employment generating capacity will be low*.
- Lack of employment opportunities translates to lower consumption demand which slows the growth of economy.
- **Import component of spending** - All projects, whether big or small, create an immediate demand and how much of it is domestic demand and how much it is for economies outside is determined by this import component.
- A part of this capex may be *spent on imports, which simply cancels out without providing adequate domestic demand*.
- **Slow growth of private sector** - Gross fixed capital formation (GFCF) in *machinery and equipment and intellectual property products* has grown cumulatively by only 35% in the four years.

> ***Gross Fixed Capital Formation (GFCF)*** *represents the net increase in the value of fixed assets over a specific period of time in an economy. It includes land improvements, plant, machinery, equipment purchases, and the construction of roads, etc.*

What lies ahead?

- Corporate sectors could take the responsibility of creating more jobs which may increase the consumption in the economy.
- The revival of both speculative demand and state of credit are important for the recovery of the economy.

References

1. The Hindu| Lagging in Corporate Investment
2. MOSPI| Index of Industrial Production

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